# Services and the Doha Development Agenda

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Douglas Cleveland, April 2003

The Doha Development Agenda which establishes the goals for the current round of WTO trade negotiations includes an ambitious agenda for identifying and adopting measures to promote increased international services trade and investment. The United States strongly supports the Doha Development Agenda, both in general and, in particular, with regard to the current negotiations on services issues.

The world's largest economy, the United States is also both the world's largest services exporter and its largest services importer, so U.S. interest in services issues, including specifically the WTO negotiations, is natural. However, U.S. commitment to the success of the negotiations rests on more than this. The United States strongly supports the fundamental objective of the Doha Development Agenda, which is to promote sustainable development of the world's less affluent economies by creating conditions for them to benefit more fully from the multilateral trade and investment system.

This paper outlines the developing economy benefits of the Doha Development Agenda for services. In doing so, the paper highlights the fact that the goal of expanded, more efficient international services markets is not so much a developed economy interest as it is an opportunity for WTO members at all levels of economic development to unlock one of the largest – and still largely untapped – reservoirs of sustainable economic growth available to the world economy today.

## ***All economies need and produce services.***

Development and expansion of modern services markets will be key to growth and rising per capita incomes in coming decades, both for today's low income and transition economies and for industrialized economies. While it is true that expanded opportunities for international trade and investment in services will figure prominently in this economic expansion, it is also true that the service sector has long claimed major shares of output and employment in most countries - well before services emerged as a prominent agenda item in international trade talks.

Services are what most businesses around the world produce and sell, and in most countries, what most people do for a living. In general, the service sector's relative size is correlated with per capita income. Services on average account for over 50 percent of GDP among the world's low and middle income economies, with almost all countries deriving 30 percent or more of GDP from service industries, and with more than 60 percent of GDP generated by the service sector in many middle income economies.

Among high income economies, services industries often account for over 70 percent of GDP and employment. If construction is included (its output is treated as a service in the trade context), services industries now account for about 80 percent of U.S. private sector output and for over 80 percent of U.S. private nonfarm employment.

***Developing country exports are important, ....***

Exports, which are commonly taken to be a convenient gauge of countries' international commercial interests, highlight another aspect of the importance of services to the Doha Development Agenda. Just as services exports have been more often overlooked than understood in industrialized countries, developing economy services exports are far more significant than is typically presumed. In fact, a notable feature of global economic growth and integration in the 1990s was the broad and rapid increase in services exports by the world's developing economies.

Between 1991 and 2000, the world's developing economies as a group more than doubled their commercial services exports, from $189 billion to $399 billion, raising their share of global services exports from 23 percent to 28 percent during the decade. Over fifty developing and transition economies now export more than $1 billion in services each year, with their number distributed throughout the developing economies of Asia (10), Africa and the Middle East (10), Europe (18), and the Western Hemisphere (13).

The rapid increase in services exports during the 1990s also catapulted many developing economies into the upper ranks of global services exporters -- and these countries' export interests are now very significant. Services exports grew particularly rapidly among the developing economies of Asia, whose share of global services exports rose from 10 percent in 1991 ($88 billion) to 14 percent by 2000 ($213 billion). Eight of the developing economies of Asia now export more than $10 billion in services annually; as a group, Hong Kong (the world's 10$^{th}$ largest services exporter in 2001), China (ranked 12$^{th}$), Korea (14$^{th}$), Singapore (16$^{th}$), India (19$^{th}$), Taiwan 20$^{th}$), Malaysia (26$^{th}$) and Thailand (28$^{th}$) exported some $199 billion in commercial services in 2001, 14 percent of the world total.

***... as are developing country imports.***

Not surprisingly, these and a number of other developing economies now also rank among the world's leading services importers (the eight economies above alone imported $195 billion in commercial services in 2001). The substantial services imports of many developing countries have a two-fold significance for overall developing economy interests in global services trade.

First, for many developing countries, other developing economies are among their largest and most promising export markets. Ongoing research conducted by the OECD on developing economies' services exports, for example, has highlighted the success that many firms in developing economies are having in marketing their services abroad, not only to customers in the industrialized economies, but to customers in other developing markets as well.

Second, for all economies - low, middle, and high income alike - the ability to import services is one of the most valuable benefits of participation in the global economy. Many of these benefits of services imports parallel the similar benefits of goods imports, and the reasoning that convinced countries to reduce barriers to merchandise trade in previous rounds of trade negotiations thus applies equally well to services trade.

The WTO has characterized the 'six benefits of services liberalization' for an economy as more competition, lower prices, faster innovation, higher employment, greater transparency and predictability, and technology transfer. More competition leads this list for a reason: "Opening domestic markets to foreign services suppliers ... tends to improve efficiency in the short and long term, lowering prices, improving service quality, increasing consumer choice, and encouraging productivity gains. It is also often a more effective means of curbing the monopoly power of dominant suppliers than regulation or break-up."

***Investment is at least as important as trade.***

Investment is no less essential than trade to the Doha Development Agenda for services. While cross-border services trade - meaning the export and import of services in ways that are roughly analogous to goods trade - offers developing economies an invaluable vehicle for growth, other aspects of services, especially foreign direct investment (FDI), offer additional, no less invaluable gains.

In contrast to goods, many types of services cannot be effectively traded across borders, but must instead be provided in whole or in part through a local commercial presence. For many other services, including those for which trade provides a feasible sales vehicle, foreign firms may still prefer to maintain a local commercial presence, either in lieu of trade or as a complement to traded services.

Already, the growth rate for FDI into the services sectors of developing economies outpaces both that of FDI into the services sectors of the industrialized economies and

**The Doha Development Agenda – Services**

In November 2001, trade ministers from over 130 WTO member countries meeting in Doha, Qatar, agreed to a launch a new round of multilateral trade negotiations. The Ministerial Declaration issued at the conclusion of the Doha meetings established as the primary goal of the negotiations a more complete integration of the economies of developing countries into the world trade system, and emphasized above all the goal of fostering sustainable economic growth in these countries. The ambitious work program for negotiations is thus known as the Doha Development Agenda.

Negotiations on services were already almost two years old when they were incorporated into the Doha Development Agenda in November 2001. The WTO General Agreement on Trade in Services (the GATS), a key achievement of the Uruguay Round trade agreement reached in 1994, committed member governments to undertake negotiations on specific services trade issues and to undertake successive rounds of negotiations to progressively liberalize trade in services, the first round to start no later than five years from 1995. As mandated by this 'built-in agenda' for services, the current negotiations began on January 1, 2000, under the GATS Council for Trade in Services, which adopted formal guidelines and procedures for the negotiations in March 2001.

The November 2001 Ministerial Declaration endorsed the work already conducted under the GATS Council for Trade in Services, reaffirmed the negotiating guidelines and procedures, and established some key elements of the remaining services work program timetable, including, most importantly, the January 1, 2005 deadline for concluding the negotiations as a key part of the overall Doha Development Agenda negotiations. In keeping with the timetable for negotiations laid out in the Doha Ministerial Declaration, the United States submitted its initial requests for improved services market access in June 2002, and its initial offer on services on March 31, 2003.

that of FDI into the manufacturing sector of developing economies (28% per year from 1988 to 1999, versus 12% and 20% per year). As with cross-border services trade, FDI in services has increased more rapidly in some regions than in others: FDI in services grew the fastest in the Asia-Pacific region; FDI in services also grew rapidly in the developing economies of South Asia and Latin America and the Caribbean, but service sector FDI flows to sub-Saharan Africa declined, as did FDI flows to Africa's manufacturing sector.

Together with services trade, service sector FDI is today one of the richest veins of growth available to developing economies. World Bank models, for example, indicate that by lowering their barriers to services imports and reducing their barriers to services FDI, developing economies can capture gains at least five times larger than those available from full market access for their agricultural and manufactured exports.

## ***Achieving the Doha Development Agenda ...***

... will benefit all WTO members, but holds the greatest promise for those countries that most effectively open their local markets to international services trade and investment. Developing economies clearly stand to reap immense benefits if this ambitious goal is met.

Although U.S. services markets are already among the most open in the world, the United States is committed to achieving the Doha Development Agenda for services. Through its March 31, 2003 agriculture and services offers, the United States has shown that this commitment is backed by a willingness to make bold proposals in areas of real interest to developing economies. Paired with its proposals in related areas, such as improving the transparency of U.S. visa procedures, these offers affirm U.S. belief in the importance and the promise of the Doha Development Agenda for services.

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